

# Financial statements and role of external audit essay sample



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The nature of accounting is changing with specific demands in the market. Today, the SME clients require specific information and thus there have been a positivist-accounting approach while preparing accounting statements. One step in this positivist approach is where the general purpose financial statements are becoming deregulated and let market forces control the quality of the general purpose financial statement. The deregulation of the financial statement means that the statement created must not follow all the guidelines of the general accepted accounting principles but rather be user or client oriented. The information that the special purpose statement will contain may be different from that in the general purpose financial statement because the goal of the two accounting approaches is different. The deregulation of the general accepted financial reports however does not necessary mean that the independent auditor play a greater role and will earn more revenues.

In the case study of Enron and Arthur Andersen, the latter company and an independent auditor had to fire a partner who was acting unprofessional and had asked employees to destroy documents containing accounting information. This is after the partner realised that the Security and Exchange commission had picked interest in the Enron affairs and was scrutinising and investigation the company accounting information. The court ruled that Anderson Company was liable for the fall of Enron in 2001. Lots of criticism was made to the government for indicting the whole company rather than the individuals that were involved. In a later decision in the court of appeal, it was ruled that Andersen Company was not liable as charged but the executives of Enron Company and executives of Andersen were liable. This

ruling made it clear that the auditor is not solely liable for improper accounting standards.

The act of deregulating the general accepted financial resources does not give the auditor the more responsibility and a means to earn more revenues. The special purpose reports can only be prepared when required and are only prepared monthly but cannot be adopted or used in annual compliance purposes. The deregulation of the general financial reporting does not distract the need to produce quality financial statements. The accounting policies that have been used in the preparation of the special purpose reports must be comprehensive in order to completely explain the basis under which such reports have been created.

Like the general accepted financial reporting, there should always be supporting notes to offer additional information on how certain figures have been arrived at, and also where there is no adequate information in order to help the user in understanding the balances. In conclusion, the deregulation of the generally accepted financial statement by letting them be controlled by the specific demands in the market does not mean that the independent auditors will have a better opportunity to earn more or will get more responsibilities. It is the task of the accountant to ensure that the accounting statements are properly prepared, and deregulation does not mean that the accounts will not be accountable.